

Final Examination
NS 3041 Comparative Economic Systems
Dr. Robert M. McNab

Instructions

The objective of this examination is to gauge the student's understanding of the material presented during this course, to include lecture materials and reading assignments. It is expected that students will complete the exam by the deadline noted in the instructions. It is furthermore expected that each student will complete the exam independently of other students and will not confer, discuss, or share materials or answers to the questions contained in this exam. The instructor reserves the right to conduct an oral examination of any student if it is believed that the above policy has been violated.

Read each question carefully before attempting to draft an answer to the question. When asked to perform a calculation, make sure to show all work to receive partial or full credit. Answers will be graded for (1) conceptual understanding; (2) completeness; (3) reasoning; and (4) presentation. The instructor prefers that completed exams be submitted by email and will acknowledge receipt of examination by email. Students wishing to leave a hardcopy exam for the instructor may do so at their own risk that the instructor will receive the exam by the examination deadline. The deadline for this examination is 1700 on 28 September 2001. Failure to submit the examination by the deadline will result in a failing grade due to time constraints to submit class grades to the registrar.

Theory

1. A result of the Harrod-Domar model is that economic growth is a function of the national savings rate (S/Y) and the incremental capital-output ratio (ICOR).
 - a. In your own words and assuming all else remaining equal, what would be the impact of an injection of savings in the Harrod-Domar model?
 - b. Discuss the influence of increased savings on capital productivity and economic growth in the Harrod-Domar model and compare this to the Solow growth model.
 - c. Using the materials presented in class and the readings in the book, what is meant by “capital deepening?”
 - d. In your own words, discuss what you view are two of the “critical” assumptions underlying each of these models of economic growth.

2. Production Possibilities Frontier (PPF) analysis allowed us to examine the effects of foreign aid on consumption and investment in a developing country.
 - a. In your own words, discuss the assumptions underlying PPF analysis. What is the significant difference between a linear and concave Production Possibilities Frontier?
 - b. Assume that a developing country is producing a combination of consumption and investment goods on its PPF. In your own words, discuss the potential impact of foreign aid on the production in the developing country.
3. The two sector model of labor and output in developing countries suggests that agricultural wages are, in part, a function of the demand for industrial labor.
 - a. Explain why agricultural wages may remain near subsistence levels even though a segment of the labor force is employed in the industrial sector.
 - b. Explain the implications of having a labor force growth rate that is lower than the growth rate of demand for industrial labor. Be sure to discuss the impact of a low labor force (population) growth rate relative to the demand for industrial labor on industrial and agricultural wages and agricultural production.

Readings and Policy

4. A result of the Solow growth model is that economic growth is a function of the growth rates of capital and labor and the shares of capital and labor in economic output.
 - a. Discuss the relationship between absolute and conditional convergence and the evidence to support each hypothesis.
 - b. If we accept de Soto's (see assigned readings on class web site) argument that private capital formation is dependent upon property rights and other institutions, how would one incorporate these factors in the Solow growth model?
 - c. Discuss two of the assumptions underlying the Solow growth model and discuss what might happen if these assumptions were violated.

5. Using the assigned readings on external debt and IMF financing, discuss the follow topics:
 - a. What is the HPIC? In light of historical attempts to reduce foreign debt in developing countries, is the HPIC a “step in the right direction?”
 - b. Why should developed nations care about debt relief in developing and transitional economics? Is there an economic argument for debt relief? Are there economic arguments against debt relief?
 - c. In your own words, briefly discuss the main argument of the IMF financing and moral hazard article. Discuss whether you accept or reject the arguments made in this paper.
6. Using the readings assigned for class and the discussion in class, discuss whether HIV/AIDS generates positive or negative externalities and whether HIV/AIDS can be considered a public or private good for a society at large.
 - a. Discuss the concept of asymmetric information and how it relates to the problem of HIV/AIDS.
 - b. Discuss how HIV/AIDS affects lifecycle income as discussed in class.
 - c. Discuss why a private response to the problem of HIV/AIDS may not be sufficient to combat the spread of the disease in developing and transitional countries.